his discussion. It is not necessary to repeat, in this connection, the well-known arguments for and against this theory. Mr. Dawbarn's efforts to conform consistently to his text, are ingenious, if not always successful. The attempt to justify all forms of taxation by a single principle of justice has well-recognized limitations. At several points, Mr. Dawbarn finds it necessary to fall back upon the still more indefinite principle of social expediency.

It is difficult, in reading the book, to avoid the impression that the economic theory which forms its background, is predominately influenced by the doctrines of the Classical School. This influence is especially obvious in the discussion of the taxation of labor and capital. The author's tenderness for capital, and his belief that it will "migrate" at the least discouragement, leads him to the conclusion that earned incomes should be subject to progressive taxation, while unearned incomes—those which are attributable to the ownership of property—should be subjected merely to proportional rates.

The book has much literary merit. It is concise and possesses a pleasing unacademic freshness and breadth of view. The author's attitude toward social problems is both humane and practical.

L. C. Gray.

University of Wisconsin.

The Industrial System. By John A. Hobson. New and revised edition. (New York: Charles Scribner's Sons. 1910. Pp. xx, 338.)

The system of economic theory which Mr. Hobson presents in this new and revised edition of his *Industrial System* is essentially identical with that set forth in the first edition. A few minor changes have been made, in response to the suggestions of his critics, but these are insufficient to destroy the impression that in publishing the work without more extensive alterations, the author is reaffirming his faith in the principles laid down before. Hobson's system is, then, to be regarded as closed. It does not appear to be capable of further development; and criticism of it, if intended to force the author to modify his position, is vain. Accordingly, we are justified in assuming an objective attitude toward it, as toward a body of thought which has passed out of the field of controversy into the field of the history of dogma.

In this finished work, as in his earlier works, Hobson is dis-

tinguished by the emphasis which he places upon the organic character of the productive process, and by the sweeping corollaries in the field of distribution which he derives from the fact of interdependence of productive functions. The productive process as a whole yields a mass of commodities; no part of this mass can be said to be the specific product of any unit of a productive factor. If this is true, it is vain to seek in the laws of production any light upon the process of distribution. To be sure, since all the factors are essential to production, each unit of productive agency must secure, from the joint product, whatever may be necessary for its maintenance. The laborer must live, machines must be replaced, land must be kept from deterioration. If the productive process is in a dynamic condition and requires additional labor supplies, new machines, more intensive use of land, the factors will have to receive additional remuneration. If the entire product exceeds what is necessary for maintenance and healthy growth, the excess will be distributed by "pulls." Such, in the main, are the outlines of Hobson's theoretical system. They have at any rate the merit of apparent clearness. Furthermore, they possess a certain conformity to well-known facts of our economic life which suggests that Hobson may deserve more attention from the realistic economist than he usually receives.

That the productive process is, in a sense, organic, would probably be admitted by every economist. No one believes that any unit of a productive factor has independent productivity. No one believes that a unit of a productive factor can be shifted from point to point in the industrial system, retaining its productivity unchanged. No one believes that the ordinary productivity test, the withdrawal of a unit of a productive factor from a productive combination, can show exactly the importance to be imputed to that unit. Part of the loss is admittedly due to the less intensive utilization of the remaining members of the combination. In all this Hobson and the school he criticizes are agreed. But to the latter school the error appears to be theoretically and practically negligible, while to Hobson it appears to be of a capital nature. The explanation of this difference in emphasis is not difficult to find. Hobson fixes his attention upon a situation in which increasing returns exist (pp. 114 et seq.); his opponents, upon a situation of diminishing returns. If a first unit of labor, in a given situation produces 2, a second increases the product to 5, a third to 9, and so on indefinitely, there

can of course be no test of individual productivity. The withdrawal of any unit would cost the entrepreneur more than the average product of the units employed. If a first unit produces 5, a second adds 4, a third 3, and so on, some sort of a test of productivity is conceivable.

Fundamentally, then, the opposition between Hobson and the productivity theorists turns upon a question of fact. Are diminishing returns, in the broad sense of the term, the general rule of economic life, or are increasing returns practically universal? If the latter is the case, there can of course be no question of a productivity explanation of distribution. The entire body of economic theory would have to be rewritten, if the world is one of increasing returns. And if the world is of this nature, what a simple problem must be that of the entrepreneur! He need not ask: Can I afford to hire more labor at the current rate? If he can afford to hire any labor, of course he can afford to hire more. A little reflection upon the various consequences of this assumption will convince most of us that it is an unsafe one to make, and that a system based upon it cannot stand.

The most serious attacks that have been directed against the productivity theory of distribution have been based upon its assumption of perfect competition. This assumption Hobson naturally rejects; but the force of his objection is diminished by the doubtful character of his concept of competition. "Its strict condition, as we saw, was an equal abundance of all the various sorts and qualities of land, labor, capital and managing ability; for, if any one, at any point is relatively short in supply, it can suspend free competition and extort a rack-rent or forced gain" (p. 136). It means nothing to say that managing ability and building lots are equally abundant. It means less to say that labor "suspends free competition" when an influx of capital tips the distributive scales in favor of wages. Competition among laborers may be as keen as ever; competition among capitalists no keener. The quantitative relations of the factors have changed, and a unit of the one has increased in importance while a unit of the other has decreased. "Scarcity" is confused with "monopoly," hence no conclusions of significance are drawn with respect to either.

The theoretical system that is presented in this book appears to the reviewer to be seriously defective as a purely logical structure. It would, however, be rash to conclude that the work is

without significance. Recent economic theory has shown a tendency to disregard the time-honored distinction between "necessary" and "surplus" income—a distinction which has a practical bearing upon taxation, and one which may be found useful in a study of the history of class formation and class antagonisms. Mr. Hobson deserves much credit for a sincere attempt to lay a new logical foundation for this distinction, and for his ingenious suggestions as to its applicability to the current financial situation of the United Kingdom.

ALVIN S. JOHNSON.

University of Chicago.

Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie. By JOSEPH SCHUMPETER. (Leipzig: Duncker und Humblot. 1908. Pp. xxii, 626.)

In its proposals as to method, as well as in the conclusions of theory derived from an illustrative use of the method, Schumpeter's book on the nature and scope of pure economics is revolutionary; yet the whole spirit of the book, with its abundant evidence of careful research and reflection, proves that the author is far from being a revolutionist for the sake of revolution. The book seems deserving of more attention and consideration than it has received from American and English economists.

To attempt a brief review of the book is to run an unusual risk of doing it less than justice. A large volume, in a foreign tongue, devoted to an abstract treatment of a highly abstract subject, and constantly challenging the most generally accepted opinions, hardly invites a reviewer to confirm or disprove his author's claims, within the proper limits of this review. In spite of long and painstaking study, the present reviewer frankly confesses incompetence to express any opinion as to Schumpeter's claims for his method or as to the results which he derives from its use for purposes of illustration. It will perhaps be sufficient, as it will certainly be safer, to confine the review to a brief comment on a few of the most important features in which the book represents a departure from the traditional and the usual.

First of all, it should be noted that Schumpeter is an avowed pragmatist. His book marks the first conscious attempt, so far as the reviewer is aware, to apply the new-old philosophy of pragmatism in the unexpected field of pure economics. Cost of production theories, marginal utility theories, and the like, are not